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AF/W FOR EMILY NARKIS, H FOR DIANE RICH

E.O. 12958: N/A

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SUBJECT: SCENESETTER FOR CODEL LEWIS' TRIP TO CAPE VERDE, NOVEMBER 6-8, 2008

¶1. (U) Welcome to the Republic of Cape Verde, one of Africa's success stories. It is an island nation, approximately the size of Rhode Island, located in the north Atlantic Ocean approximately 300 miles due west of Senegal off Africa's west coast. Cape Verde has a population of 450,000 people spread over nine inhabited islands. Politically stable, Cape Verde enjoys excellent relations with other countries in the region and has played an important mediator role in the peace keeping process in the sub-region; it has one of the continent's highest literacy rates, per capita incomes, and health indicators. It also enjoys one of the region's best human rights records. There are no political prisoners, freedom of religion is respected, and there is an active media and internationally recognized freedom of expression. In 2007, Cape Verde obtained a special partnership status with the European Union, which will assist the country to modernize its institutions and provide more market access. Cape Verde's good governance and human rights indicators have earned the country important political and economic benefits. Its impressive economic growth performance has raised it to the ranks of lower middle-income countries, with a per capita income of approximately \$2,000. Bilateral relations between the United States and Cape Verde are excellent. The United States and Cape Verde are drawn together by a shared commitment to democracy and by strong family ties. ¶U. S. diplomatic activities in Cape Verde include strengthening security and rule of law, including combating drug trafficking, supporting the consolidation of democracy, creating economic opportunity so as to enhance the archipelago's viability, and providing quality consular services to our many consular clients.

#### POLITICAL OVERVIEW

¶2. (U) Cape Verde is strongly committed to democracy. Cape Verde has had seven rounds of elections since independence in 1975, all considered free and fair, and has one of the best records in Africa in terms of good governance. Cape Verde held municipal elections on May 18, 2008. The voter participation rate was 78%. The main opposition party, the MPD (Movement for Democracy) won in 12 of the 22 municipalities and the governing PAICV (African Party for the Independence of Cape Verde) accepted defeat. The National Electoral Commission judged these elections free and fair. An independent audit found that the voter registration process was credible. All parties are, however, aware of the need to improve the electoral system and further revisions to the electoral code will continue, including discussion of the voting process and the voting regime for the Diaspora, a large percentage of whom resides in the United States.

¶3. (U) In 2007 and 2008 several hundred illegal migrants attempting to reach the Canary Islands were intercepted in Cape Verdean waters. Cape Verde is seeking international cooperation with a view to solving the human rights, economic and social issues that could arise from increased illegal migration.

#### MILLENNIUM CHALLENGE ACCOUNT

¶4. (U) The size and depth of the Millennium Challenge Compact

program, one of the first Compacts to be signed, is recognition of Cape Verde's strong record of democratic governance, intolerance of corruption, commitment to supporting and promoting agricultural development, private sector activity, and effective use of limited resources to address the needs of its people in a sustainable way. The \$110 million Compact, now in its third year of implementation (as of July 2008), supports Cape Verde's national development goal of transforming its economy from aid-dependency to economically and socially sustainable growth. This funding by MCC makes the U.S. one the largest donors in Cape Verde. MCC funds are being applied to improve the country's infrastructure to support increased economic activity, improve access to credit, and provide access to markets, employment, and social services; increase agricultural productivity; as well as carry out key policy reforms for sustained development and economic growth. At the completion of the Compact, the program is expected to increase Cape Verde's annual income by at least \$10 million.

#### ECONOMIC TRANSITION AND PROGRESS

15. (U) Cape Verde's status as a small open economy, with a relatively high level of external public debt and heavily dependent on emigrants' remittances and external aid, makes it vulnerable to external shocks. As an archipelago, the country faces large internal transportation and communication costs; it has no energy resources or tradable raw materials. Its agriculture sector is susceptible to frequent droughts, making the country over-reliant on food imports. Cape Verde has high levels of poverty and unemployment, partly attributable to a lack of obvious economic growth opportunities and a scarcity of resources, particularly water. The warm climate and lack of rain, combined with the country's stable political environment, has encouraged the development of a dynamic tourism industry. Cape Verde seeks to diversify its economy into other services, in particular international maritime and air transport. It is aided in this area by its strategic geographical position and its excellent relationships with the United States and Europe. Services represent over 70% of Cape Verde's economy. Agriculture, though still significant in employment terms, contributed only 8 percent of GDP in 2004. The country has been able to develop a successful economy based on tourism, transport, and other services and, to a lesser extent, on light manufacturing industries.

16. (U) Since 2007, Cape Verde signed an agreement of special partnership with the European Union, acceded to World Trade Organization (WTO), and graduated from Least Developed Country (LDC) status. The United States provided technical assistance during accession negotiations, and the European Union also provided strong support. The country's macroeconomic evolution continues to be monitored by the IMF under a Policy Support Instrument, signed in July 2006. The Cape Verde currency, the Escudo, is pegged to the Euro at a rate of 110.27 escudos to 1 Euro. Cape Verde benefits from the absence of exchange-rate risk in relation to the Euro. The Cape Verde Central Bank is studying the possibility of adopting the Euro as local currency. This is expected to be a lengthy process and will not be completed in 2008.

#### FOOD SECTOR

17. (U) Cape Verde imports over 90 percent of its food consumption. Water shortages and successive droughts have greatly weakened its crop production capacity over the last century. Any decline in Cape Verde's import capacity as a result of the price increases or grain shortages would have serious implications for the food security of the country where corn, rice and bread represent the basis of the dietary consumption. In response to the international food crisis, the National Assembly approved the reduction in import duty on wheat, and the exemption from value-added tax for maize, wheat, milk products and cooking oils.

#### ENERGY SECTOR

18. (U) Current energy generation is insufficient to meet current needs and projected growth of the tourism industry, which is

highly dependent on stable provision of electricity and fresh water. The country has studied various solutions to overcome its major development burden including a floating Russian nuclear energy station. However, it has strategically decided to invest in alternative energy resources. The announced goal is to produce 25% of energy needs from renewable sources by 2011 and 50% by 2020. There are also plans to make the island of Sal fully reliant on renewable energy (a combination of solar, wind, wave, and biofuel) in the next 5 to 10 years. Until then, Cape Verde will remain highly vulnerable to exogenous shocks in both the energy and food markets.

#### AVIATION SECTOR

¶9. (U) Aviation is an area where the United States and Cape Verde have cooperated very effectively. Cape Verde has received high ratings for its civil aviation services. On September 9, 2003, Cape Verde became the first of the Safe Skies countries to meet ICAO safety standards and achieve Federal Aviation Authority (FAA) Category 1 as a result of the technical assistance provided under the Safe Skies Program. With the upgrading of the international airport on Sal, the recent inaugurations of Praia and Boavista International Airports and finally, with the imminent inauguration of a fourth international airport on the Island of Sao Vicente, Cape Verde can expect a boom of its tourism industry. TACV, the state owned airline is undergoing restructuring to stem losses and privatization has been promised every year for the last 5 years. Recently a new private airline Halcyonair has started operations with a limited fleet of only one aircraft. The company expects to soon reinforce the fleet with additional aircraft.

#### HUMANITARIAN PROGRAMS

¶10. (U) Our Peace Corps Volunteers are active in English language teaching; English teacher training; working with youth on HIV/AIDS prevention throughout the islands; and supporting municipal offices, youth centers, and local NGOs with Information Technology training. There is no USAID presence in Cape Verde. The Embassy's Special Self-Help Program and Democracy and Human Rights Funds have become important and highly desirable funding mechanisms, enabling the Ambassador to respond quickly to the growing needs of local communities. These projects and other U.S. assistance efforts in Cape Verde generate much public awareness and goodwill towards the United States. Whether it is access to potable water, income generation, or equipping local schools, the projects selected exemplify the philosophy of these funds by assisting grassroots organizations to play a role in their development.

¶11. (U) The Embassy coordinates U.S. DoD Humanitarian Assistance donations that have helped build community centers in 22 municipalities around Cape Verde. Five additional community centers and fire stations are planned for the near future. Excess property including water trucks, dump trucks, generators, patrol boats and supplies have also been donated. Additional projects include building classrooms and renovating schools in impoverished districts. Many of these projects are located on islands that can be reached only by ship, so these humanitarian construction projects are of great significance and value.

#### MILITARY AND SECURITY ASSISTANCE

¶12. (U) The Armed Forces of Cape Verde is a limited force of approximately 1,300 personnel, recently reorganized into the National Guard and the Coast Guard. The National Guard consists of the military police corps, the Marine Corps, the artillery corps, and additional support units. It is organized territorially and is the main component of the Armed Forces designed for country-wide military defense, through territorial and amphibious operations, as well as internal security support. The Coast Guard consists of naval, aerial, and ground forces units. It defends and protects the nation's territorial waters through aerial, terrestrial, and amphibious operations. The Security Assistance Program, coordinated by the Embassy, assists the Cape Verdean Armed Forces to enhance its professional Officer Corps, particularly at the middle management level. It

also promotes cooperation in areas of joint interest, including counter-terrorism, maritime law enforcement, search and rescue, disaster preparedness, and the interdiction of narcotics shipped through Cape Verde waters.

#### THE GROWING DRUG PROBLEM

¶13. (U) Cape Verde's strategic location on the maritime and aerial routes between Africa's mainland, Europe, and South America makes it an attractive location for transshipments of illegal drugs from the Caribbean, Colombia, Brazil, Venezuela, Europe and possibly the United States. The Embassy is monitoring closely the increase in drug trafficking that is taking place in Cape Verde. Police seizures of cocaine destined for Europe have increased greatly in the last year, and there is increased domestic drug use as well as drug-related crimes. There are also suspicions of organized crime involvement in money laundering and trafficking activities. Police in Cape Verde seized 43,257 kg in 2006 and 509,358 kg of cocaine in 2007; most of these drugs were being smuggled to Europe. We have seen no indication that cocaine is being smuggled to the United States from Cape Verde, though now with direct flights, we cannot rule out the possibility.

#### CONSULAR RELATIONS

¶14. (U) Cape Verde has a long history of immigration to the United States, and this pattern of immigration continues today. The Cape Verdean community in the United States is estimated between 350,000 to 500,000 with the overwhelming majority in Massachusetts and Rhode Island. The Cape Verdean population in the United States rivals the total number of Cape Verdeans in the archipelago of Cape Verde itself. There are an estimated 2,000 to 3,000 Americans permanently residing in Cape Verde. During the summer months, there may be more than 10,000 Cape Verdean-Americans in country. Nearly all Americans resident in Cape Verde are dual nationals, or have access to dual nationality. Most of the senior citizen Americans in Cape Verde are naturalized Americans who have returned to their home islands of Fogo and Brava for retirement.

#### USG FOOTPRINT IN CAPE VERDE

¶15. (U) The American Mission to Praia is comprised of Department of State, the Peace Corps, and the Millennium Challenge Corporation (MCC). Our direct-hire American contingent is composed of the Qassador, Deputy Chief of Mission/Management Officer, MCC Resident Country Director, Peace Corps Director, Peace Corps Assistant Director, Consular Officer, Political/Consular Officer, and Office Management Specialist. Our locally engaged staff includes 95 FSN/PSAs (MCC, Peace Corps, and State), some of whom are American citizens, and 11 Contractors (Peace Corps). As of September 2008, 52 Peace Corp Volunteers serve on seven of Cape Verde's islands. Our mission also enjoys regional support from other USG agencies located in Dakar, Lisbon, Cairo, and Frankfurt.

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